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ELIAS C. ALVORD (1942)  
ELLSWORTH C. ALVORD (1964)

OF COUNSEL  
URBAN A. LESTER

November 15, 2002

Mr. Vernon A. Williams  
Secretary  
Surface Transportation Board  
Washington, D.C. 20423

RECORDATION NO. 24213-B FILED  
NOV 18 '02 11-40 AM  
SURFACE TRANSPORTATION BOARD

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a), are two (2) copies of Subordination Agreement, dated November 5, 2002, a secondary document as defined in the Board's Rules for the Recordation of Documents.

The enclosed document relates to the Security Agreement which is being filed with the Board under Recordation Number 24213.

The names and addresses of the parties to the enclosed document are:

Borrower: The Durango & Silverton  
Narrow Gauge Railroad Company  
479 Main Avenue  
Durango, CO 81301

Lender: Colorado Housing and  
Finance Authority  
1981 Blake Street  
Denver, CO 80202

Original  
Lender: Charles E. Bradshaw, Jr.  
22051 N. O'Brien Road  
Howie-in-the-Hills, FL 34737

Mr. Vernon Williams  
November 15, 2002  
Page Two

A description of the railroad equipment covered by the enclosed document is:

Durango & Silverton	Nomad Business Car	B-3
Durango & Silverton	Locomotive	42 (formerly 420)
Durango & Silverton	Locomotive	R-1
Durango & Silverton	Locomotive	493
Durango & Silverton	Locomotive	498

A short summary of the document to appear in the index follows:

Subordination Agreement

Also enclosed is a check in the amount of \$30.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the undersigned.

Very truly yours,



Robert W. Alvord

RWA/anr  
Enclosures

RECORDATION NO. 24213B FILED

NOV 18 '02

11-40AM

SUBORDINATION AGREEMENT

SURFACE TRANSPORTATION BOARD

THIS SUBORDINATION AGREEMENT (this "Subordination"), is executed this 14 day of November, 2002, by and between Charles E. Bradshaw, Jr. ("Original Lender"), Colorado Housing and Finance Authority ("Authority") and Durango & Silverton Narrow Gauge Railroad Company, a Colorado corporation ("Borrower").

WITNESSETH

WHEREAS, Borrower is the owner of certain collateral (the "Collateral") described on Exhibit A attached hereto and incorporated herein by reference; and

WHEREAS, as security for the payment of a certain promissory note to Original Lender which has been renewed by that Renewal, Consolidation and Modification Promissory Note dated April 30, 1999 in the principal amount of Two Million Three Hundred Twenty-two Thousand Dollars (\$2,322,000) together with all other instruments amending, replacing, renewing or modifying such note (collectively, the "Original Note"), and the performance of certain obligations, the Borrower has granted to the Original Lender a security interest in the Collateral created pursuant to a certain Security Agreement dated March 13, 1997, a certain Deed of Trust, Security Agreement, Financing Statement and Assignment of Leases and Rents dated March 13, 1997, and a certain Rolling Stock Security Agreement dated March 13, 1997 and recorded on March 24, 1997 with the Surface Transportation Board at Recordation Number 20594, together with all other instruments amending, replacing, renewing or modifying such agreements (collectively, the "Original Security Agreement"), as evidenced by certain financing statements including, but not limited to, the following Financing Statements:

- (a) Financing Statement recorded March 14, 1997 as Reception No. 723314 in the Real Estate Records of La Plata County, Colorado (the "County"), and recorded March 14, 1997 as Reception No. 97000089 in the UCC records of the County. Amendments recorded on April 17, 2000 at Reception No. 20002034409 and on August 31, 2000 at Reception No. 20002078839 in the Office of the Colorado Secretary of State; and
- (b) Financing Statement recorded March 17, 1997 as Reception No. 19972020899 in the Office of the Colorado Secretary of State; and
- (c) Financing Statement recorded March 14, 2002 as Reception No. 20022027562 in the Office of the Colorado Secretary of State,

(collectively, the "Original Financing Statements"); and

WHEREAS, Borrower has requested that the Authority make to it a loan in a principal sum not to exceed One Million Dollars (\$1,000,000) (the "Authority Loan"); and

WHEREAS, the Authority has agreed to make the Authority Loan which is evidenced by a promissory note in a principal amount not to exceed One Million Dollars (\$1,000,000) (the "Authority Note") and secured by a Security Agreement dated November 14, 2002, and recorded on \_\_\_\_\_, 200\_\_ with the Surface Transportation Board at Recordation Number \_\_\_\_\_ (the "Authority Security Agreement"), granting a security interest in the Collateral as evidenced by a Financing Statement recorded on September 26, 2002 at Reception No. 20022101924 in the Office of the Colorado Secretary of State (the "Authority Financing Statement"), provided the Authority Security Agreement grants a first and prior security interest in the Collateral which is senior and prior to the security interests evidenced by the Original Financing Statements and all other documents evidencing or securing the Original Note (collectively, the "Original Loan Documents"), as security for all disbursements or expenditures made or to be made under the Authority

Note, the Authority Security Agreement and the Authority Financing Statement, and all other security documents securing the Authority Loan (hereinafter collectively referred to as "Authority Loan Documents").

NOW, THEREFORE, for good and valuable consideration, each to the other in hand paid, the receipt and sufficiency of which are hereby confessed and acknowledged by Original Lender, and in order to induce the Authority to make the Authority Loan to Borrower, Original Lender hereby states and agrees as follows:

1. Original Lender hereby represents to the Authority that it is the current secured party under the Original Security Agreement and Original Financing Statements and payee of the Original Note, and does hereby agree that the Original Security Agreement, Original Financing Statements and the Original Loan Documents, and all of Original Lender's rights thereunder, or under any other document evidencing or securing the Original Note, shall be in all respects subordinate, secondary, inferior and junior to the security interest created in the Collateral described on Exhibit A by the Authority Security Agreement, the Authority Financing Statement and the other Authority Loan Documents, and all extensions, renewals or modifications made therein, all as executed and delivered by the Borrower to the Authority as security for the Authority Note.

2. For the purposes of this Subordination, Original Lender acknowledges and agrees that all disbursements of loan proceeds and other advances made by the Authority pursuant to the Authority Note, Authority Security Agreement, Authority Financing Statement and other Authority Loan Documents shall be conclusively presumed to have been disbursed in accordance therewith and for the purposes therein provided, and Original Lender does hereby agree that the Authority is not obligated to supervise the utilization, application and disposition of such loan proceeds.

3. Original Lender hereby designates and appoints the Authority or any person or entity acting upon the directions of the Authority as its attorney-in-fact for the sole and limited purpose of inserting information in this Subordination regarding the date and recording of the Authority Security Agreement.

4. Prior to the initiation of any legal action by the Authority to recover the Collateral following an Event of Default as defined in the Authority Loan Documents, the Authority shall give Original Lender written notice of such action and Original Lender shall have thirty (30) days from the date of such notice in which to cure Borrower's default. The notice shall be deemed given when sent via first class mail, postage prepaid, to the following address or to such other place as Original Lender may by notice in writing designate: Charles E. Bradshaw, Jr., 22051 N. O'Brian Road, Howey-in-the-Hills, Florida, 34737, with a copy to Stephen B. Hatcher, Esq., 315 E. Robinson Street, Suite 600, Orlando, Florida 32801.

5. If any provision of this Subordination or the application thereof to any entity, person, or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other entities, persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

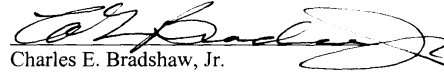
6. This Subordination contains the entire agreement between the parties hereto with respect to the subordination of the Original Security Agreement, Original Financing Statements and the Original Loan Documents to the Authority Security Agreement, Authority Financing Statement and the Authority Loan Documents.

7. This Subordination and each and every covenant, agreement and other provision hereof shall be binding upon the parties hereto and their respective successors and assigns.

8. This Subordination is made and executed under and in all respects will be governed and construed by the laws of the State of Colorado, where the real property is situate.

IN WITNESS WHEREOF, the parties hereto have executed this Subordination on the date and year first above written.

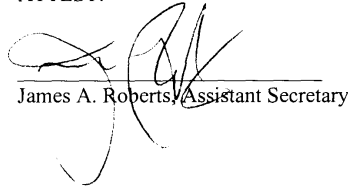
"Original Lender"

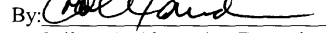
  
Charles E. Bradshaw, Jr.

"Authority"

Colorado Housing and Finance Authority

ATTEST:

  
James A. Roberts, Assistant Secretary

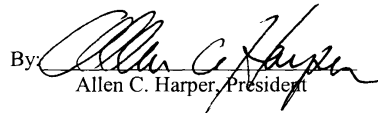
By:   
Milroy A. Alexander, Executive  
Director

"Borrower"

Durango & Silverton Narrow Gauge  
Railroad Company, a Colorado corporation

Attest:

By:   
Carol E. Harper, Secretary

By:   
Allen C. Harper, President

STATE OF FLORIDA )  
 ) ss.  
COUNTY OF ~~ORANGE~~ ORLANDO )

The foregoing instrument was acknowledged before me this 5th day of November, 2002, by Charles E. Bradshaw, Jr.

Witness my hand and official seal.

My commission expires: \_\_\_\_\_

NOTARY PUBLIC - STATE OF FLORIDA  
STEPHEN B. HATCHER  
COMMISSION # CC780188  
EXPIRES 12/22/2002  
BONDED THRU ASA 1-888-NOTARY1

[Seal]

  
Notary Public

STATE OF COLORADO )  
 ) ss.  
CITY AND COUNTY OF DENVER )

The foregoing instrument was acknowledged before me this 12<sup>th</sup> day of November, 2002, by Milroy A. Alexander as Executive Director and James A. Roberts as Assistant Secretary of Colorado Housing and Finance Authority.

Witness my hand and official seal.

My commission expires: June 24, 2006.

[Seal]



Karen Gutjahr  
Notary Public

Florida  
STATE OF ~~COLORADO~~ )  
 ) ss.  
COUNTY OF Dade )

The foregoing instrument was acknowledged before me this 13<sup>th</sup> day of November, 2002, by Allen C. Harper as President and Carol E. Harper as Secretary of Durango & Silverton Narrow Gauge Railroad Company, a Colorado corporation.

Witness my hand and official seal.

My commission expires: February 6, 2006

[Seal]



Alina Maruri  
Notary Public

EXHIBIT "A"

To Subordination Agreement among Charles E. Bradshaw, Jr.,  
Colorado Housing and Finance Authority and Durango &  
Silverton Narrow Gauge Railroad Company,  
a Colorado corporation

DESCRIPTION OF COLLATERAL

The goods and rolling stock listed below, and any and all proceeds therefrom and  
accessions thereto or therefore, and any and all documents with respect thereto or arising  
therefrom:

DESCRIPTION		NUMBER
Durango & Silverton	Nomad Business Car	B-3
Durango & Silverton	Locomotive	42 (formerly 420)
Durango & Silverton	Locomotive	R-1
Durango & Silverton	Locomotive	493
Durango & Silverton	Locomotive	498